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March 3, 2005

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street SW
Washington, DC 20664

Re: WC Dkt. No. 03-266 (Ex Parte Filing)

Dear Ms. Dortch:

This letter responds to the February 23, 2005 filing by QSI challenging evidence offered February 17, 2005, by an ad hoc telecom manufacturer coalition that dramatic growth in residential VoIP subscribership beginning about eight months ago portends LEC revenue losses for 2005 (if the FCC were to grant the Level 3 petition) that are significantly more than the \$74 million QSI has projected.¹ The manufacturer coalition showed in its February 17 submission that such substantial revenue losses could have a negative impact on telecommunications investment and for that reason urged the Commission to deny the Level 3 petition.²

In its February 23 filing, QSI claims that, contrary to the manufacturing coalition's claim, the \$74 million that QSI assumes LECs would lose during 2005 if the Level 3 petition were granted already reflects the dramatic growth in residential VoIP that began in mid-2004 since QSI based its revenue loss projection on an early 2004 TIA report that business and residential VoIP lines combined would increase from 6.5 million in 2004 to 9.9 million this year.³ In fact, however, the skimpy TIA report upon which QSI relied had projected that business VoIP lines would increase from 6.5 million in 2004 to 9.9 million in 2005, not that business and residential lines combined would increase to that number. The TIA report makes plain on its face that the 9.9 million line figure represents projected business VoIP lines, rather than business and residential lines combined, given that the

¹ See Letter from 13 telecom manufacturing companies dated Feb. 17, 2005 and filed in this docket.

² *Id.*


³ QSI's Feb. 23, 2005 letter at 1-3.

report includes a chart titled "PBX Line Shipments" projecting the number of IP-PBX lines added each year which, when summed, total 6.5 million IP-PBX lines in 2004 and 9.9 million IP-PBX lines in 2005, precisely the number of VoIP lines upon which QSI's projection of \$74 million in lost revenues during 2005 was based. Since QSI's revenue loss study is based on the assumption that PBX IP lines will grow from 6.5 million in 2004 to 9.9 million in 2005 and since very few residential customers have PBXs in their homes, the study plainly failed to consider the incremental revenue loss that would occur as a result of the unprecedented dramatic growth in residential IP lines. For the Commission's convenience, enclosed is a full copy of the TIA report which serves as the basis for the projected VoIP line counts that QSI used in estimating that LECs would lose \$74 million if 2005.

The manufacturer coalition, by contrast, showed in its February 17 submission that several million additional residential VoIP customers will be added during 2005 in addition to the 3.4 million additional business PBX-IP customers that QSI assumes will be added this year (*i.e.*, 6.5 million PBX-IP lines in 2004 vs. 9.9 million PBX-IP lines in 2005) and that several million more residential VoIP lines are likely to be added in 2006 as well.⁴ For this reason alone, if the Level 3 petition were granted LEC revenues during 2005 would decline by substantially more than the \$74 million that QSI assumed would occur as a result of the grant.

Level 3's petition should be promptly denied.

Respectfully submitted,



Rodney L. Joyce
for ad hoc manufacturer coalition

cc/ (by email)	Chris Libertelli	Jennifer Manner	Russ Hanser
	Jessica Rosenworcel	Dan Gonzalez	Julie Veach
	Scott Bergmann	Jeffrey Carlisle	Steve Morris
	Michelle Carey	Tamara Preiss	Jennifer McKee
	Lisa Gelb	Jeff Dygert	Jeremy Marcus

⁴ For example, Infonetics has projected that residential VoIP subscribership will increase from 1.1 million lines in 2004 to about 3.5 million lines this year and to more than 7 million lines in 2006. See <http://www.infonetics.com/resources/purple.shtml?ms05.ngv.4q.nr.shtml> (line graph). But those projections may be overly conservative in view of the unprecedented growth in residential VoIP that began after projection, as well as each of the other known published residential VoIP subscriber projections, was made.

VoIP market begins to take off

The voice over Internet protocol market is beginning to take off as broadband Internet service levels continue to increase. Major carriers are entering the market, cable operators are rolling out new services, and pure-play VoIP providers are gaining subscribers.

Major carriers entering market

AT&T began offering VoIP calls in New Jersey and Texas on March 30, 2004 (see "FCC Triennial Order," p. 4). The company expects to enter 100 markets by the end of the year, making it the biggest VoIP effort by a major carrier. AT&T charges \$39.99 per month for unlimited calls with an introductory price of \$19.99 for the first six months. AT&T's service, named CallVantage, costs \$5 more per month than some of its competitors, but AT&T hopes to attract customers by its name recognition, reliability and call quality. In addition to initially low cost, the service includes several free features such as call forwarding, voice mail and conferencing that can be controlled through the caller's computer. Additionally, with a feature called Locate Me, an incoming call can ring at up to five locations sequentially or simultaneously, making it easier to find the person being called. AT&T does not control connections to the home but pays the regional Bell operating companies (RBOCs) to gain access to their networks.

Qwest began offering a similar service in Minnesota in December and plans to expand service this year. Verizon plans to begin service in the second quarter. The company made a deal with Nortel for VoIP networking equipment and will start replacing local switching centers with VoIP packet switches. Verizon plans to update the switches in its 5,000 central offices over the next five years. SBC and BellSouth have yet to announce their VoIP deployment plans.

Cable company implementation

Cable companies have been more aggressive than telecom companies in deploying VoIP, since they control approximately two thirds of all broadband connections in the country. Cablevision Systems rolled out its Optimum Voice in November 2003 for its cable modem customers. As of the end of 2003, it had 29,000 customers and was signing 2,500 per week. Time Warner Cable has 17,000 customers and plans to roll out service to all of its high speed customers by the end of the year. Time Warner is using MCI and Sprint to handle termination of its IP traffic on the public switched telephone network (PSTN) as well as to

deliver 911 services. Comcast will roll out the service in four major markets in 2004. Cable operators are using VoIP to add voice to their bundle of services.

Competitor Growth

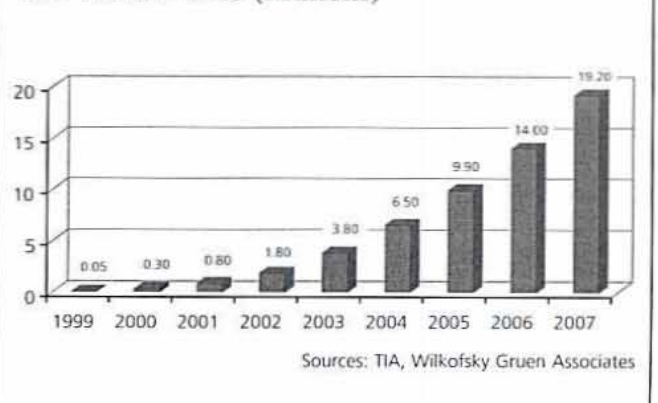
Vonage Holdings, a pure-play VoIP provider, reached the 100,000 customer level in February 2004, doubling its customer count in less than five months. By mid-April, Vonage had more than 130,000 customers. Vonage calls are initiated as IP calls but can terminate on the PSTN if the person receiving the call has traditional phone service. Vonage's service is available at \$29.99 per month.

In March, Covad Communications announced it intends to purchase VoIP provider GoBeam. Covad will be the first IP-based competitive local exchange carrier (CLEC) with a nationwide reach. By contrast, most other VoIP providers use incumbent local exchange carrier (ILEC) networks. Through its purchase of GoBeam, Covad will be able to provide VoIP service to business customers in addition to consumers in a majority of the country's top standard metropolitan statistical areas by the end of 2004. Covad also is able to wholesale turnkey operations, since it controls its own network.

Access lines

Even though the number of VoIP-enabling broadband access lines is increasing dramatically each year, there are lingering issues with regard to VoIP quality and its status with respect to regulatory supervision remains unclear. Nevertheless, the VoIP market is beginning to gain traction. IP-PBX shipments are surging, and VoIP is beginning to penetrate the residential market. We expect that by the end of 2004 there will be more than 6 million VoIP access lines, a figure we predict will rise to more than 19 million by 2007.

VoIP Access Lines (Millions)



Even as new IP station equipment is installed, shipments for traditional analog and digital lines will not disappear any time soon because customers will continue to purchase add-ons to their systems. Therefore, traditional analog lines will continue to be installed in PBX systems, despite digital and IP alternatives. As shown in the following table, IP line shipments are not expected to exceed traditional lines until 2006.

PBX Line Shipments (000)

Year	Traditional	IP	Total
1999	7,950	50	8,000
2000	7,000	250	7,250
2001	5,850	500	6,350
2002	5,175	1,000	6,175
2003	4,600	2,000	6,600
2004	4,300	2,700	7,000
2005	4,125	3,375	7,500
2006	3,800	4,100	7,900
2007	3,100	5,200	8,300

Source: TIA's 2004 Telecommunications Market Review and Forecast. Find more information on this topic on page 84 of book.

Major carriers announce Wi-Fi deals

The Wi-Fi® market also is taking off. In the past few months, all of the major carriers have announced deals to expand the number of hot spots. T-Mobile currently leads, with about 4,000 hot spots in locations such as Starbucks and Borders Books & Music stores, as well as airport lounges run by American, United and Delta. Access prices range from \$6 per hour to \$39.99 per month.

SBC launched its Wi-Fi service at the end of 2003 and plans to have 20,000 hot spots within the next three years including 3,000 in UPS offices. Marriott has the largest Wi-Fi deployment in the hotel industry, with more than 1,200 hot spots worldwide. Verizon is testing a free Wi-Fi service in the New York area using 500 of its payphones in an attempt to build its broadband subscriber base. Many municipalities are offering free Wi-Fi services to enhance their images. Providers have announced a number of agreements for their

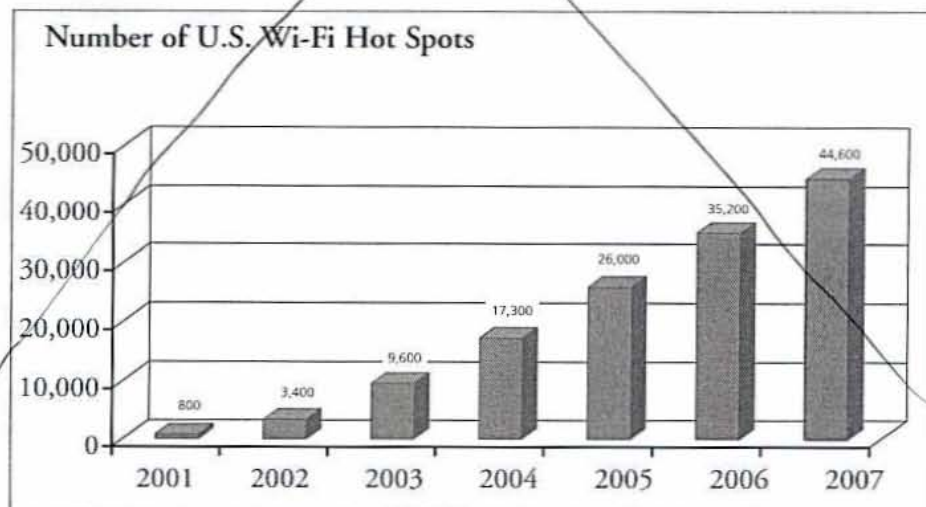
Wi-Fi® is a registered trademark of the Wi-Fi Alliance.

subscribers to use hot spots built by Wayport, which has more than 800 hot spots in hotels and airports nationwide. Boingo, another major provider, charges \$21.95 for monthly access to its 1,400 hot spots.

Home and corporate environments

The number of wireless networks is also growing in the home and corporate environments. With an increasing number of households owning more than one computer, a wireless network, which costs less than \$100 to install, allows an easy method for multiple computers to share a high-speed connection without needing cabling.

With improved encryption techniques reducing the fear of security problems, more businesses are installing wireless networks. They are particularly useful in hospitals, law offices and retail environments where employees move around within a fixed site. Car rental companies utilize



Sources: In-Stat/MDR, TIA, Wilkofsky Gruen Associates